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Thirtieth session

SUMMARY RECORD OF THE 2nd MEETING

Held at the Vienna International Centre, Vienna,
on Monday, 20 June 2005, at 3 p.m.

President: Mr. BYLICA (Poland)

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The meeting was called to order at 3.15 p.m.

ORGANIZATION OF WORK

1. **The PRESIDENT** said that the Bureau had recommended that the Board should continue the practice of holding informal consultations on draft decisions, so that a consensus could be reached on them before they were submitted to the plenary. The Bureau had further recommended that Mr. Bazoberry Otero (Bolivia) should chair the informal consultations.

2. *It was so decided.*

ANNUAL REPORT OF THE DIRECTOR-GENERAL FOR 2004 (*continued*) (IDB.30/2 and Add.1; IDB.30/21; IDB.30/CRP.2)

3. **Mr. SCHALLER** (Switzerland) said that he agreed with the Director-General that UNIDO had a particular contribution to make to the achievement of the Millennium Development Goals. The three main areas in which the Organization enjoyed a comparative advantage were private sector development with efficient, and therefore sustainable, use of natural resources; trade capacity-building; and the creation of productive capacities in the non-agricultural sector. UNIDO had a key role to play with regard to sustainable and environmentally friendly industrial development.

4. He welcomed the improvements made to the internal management of the Organization, as indicated in the report by the Office of the Comptroller General (IDB.30/CRP.2) and the report of the Department for International Development of the United Kingdom. The progress made in that regard had undoubtedly contributed to the increase in the volume of technical cooperation by strengthening Member States' faith in the Organization. Switzerland also welcomed the cooperation between UNIDO and other organizations, such as the United Nations Development Programme (UNDP) and the World Trade Organization (WTO); harmonization of the activities of the various organizations of the United Nations system was to be encouraged.

5. **Mr. WU Hailong** (China) said that UNIDO had made considerable progress with regard to internal reform, and planning for the future, programme development and technical cooperation, regional cooperation, global forum activities and performance management. The increases in the value of technical cooperation delivery and in funding through the Industrial Development Fund and trust funds were an indication of the increased confidence of Member States in the Organization. The reforms carried out under the leadership of the Director-General were conducive to further improvement of the Organization's efficiency and the continued expansion of technical cooperation coverage with a view to providing better services to Member States. He welcomed the UNIDO strategic long-term vision statement prepared by the Director-General and said that clearly defined objectives would further improve UNIDO's effectiveness and efficiency. He hoped that, in order to reflect the spirit of the tenth session of the General Conference, greater emphasis would be placed in the strategic long-term vision on South-South cooperation and on the mobilization of resources.

6. Outstanding progress had been made in 2004 with regard to cooperation between UNIDO and China; two subcontracting and partnership exchanges had been established to promote exchange and cooperation between small and medium enterprises (SMEs); China and UNIDO had jointly organized a forum on global subcontracting and supply chains in Beijing; and discussions had been held on a number of other subjects, such as the establishment of a South-South cooperation centre and of an international cooperation centre on solar energy and the promotion of micro hydropower.

7. The major problem which UNIDO faced was the shortage of funds, which hampered full implementation of strategies and plans. The main challenge for the Organization therefore continued to be the mobilization of resources and the investigation of new areas of activity with a view to better serving developing countries and countries with economies in transition. He hoped that UNIDO would further strengthen performance management and would focus on meeting the priority needs of developing countries, improving its internal procedures, and consolidating and expanding its financial resources. Moreover, when engaged in cooperation with other agencies, UNIDO should retain its own merits and advantages so as to be able to contribute to the sustainable industrial development and poverty reduction efforts of developing countries.

8. **Mr. EL MEKWAD** (Egypt) welcomed the increase in technical cooperation delivery referred to in the *Annual Report 2004* (IDB.30/2) and the particular focus on Africa in that regard. However, he hoped that the decline in some programmes, notably Major Programmes C, D, E and F, would not have an adverse effect on the technical cooperation services provided to developing countries. The Report made reference to Egypt's success in raising funds for the implementation of its country service framework (CSF), which was the largest CSF of any Member State. That fact could be attributed to the diversity of Egypt's industrial sector and to the large strides made with regard to reform policy, which had had the effect of encouraging Egypt's development partners to support its industrial modernization programme. Those efforts had been

accompanied by the signing of an agreement with UNIDO to convert the Cairo office into a regional office; under that agreement, Egypt was committed to increasing its financial contribution to the operating costs of the office and to providing it with all the necessary logistical support. However, it was regrettable that UNIDO had not yet fulfilled its obligation to provide the office with the necessary human resources. He hoped that the Secretariat would move swiftly to resolve that situation, especially as the Cooperation Agreement with the United Nations Development Programme would further increase the burden to be shouldered by the Cairo office.

9. **Mr. VIEIRA DE SOUZA** (Brazil) said that industrial development was an integral part of Brazil's economic agenda. Although the Brazilian industrial sector was large, complex and diversified, Brazil, like any other country, could not rely solely on past achievements if it wished to ensure robust, long-term industrial development. In the 1990s, in spite of increasing productivity in some industrial sectors, Brazil had not made the same inroads in the international market as some other developing countries had: whereas international trade had increased at an average rate of 7.5 per cent a year between 1984 and 2002, Brazil's participation in international trade had increased at an average rate of only 4.6 per cent over the same period. Overall, Brazil's share of international trade had declined from 1.39 per cent in 1984 to merely 0.79 per cent in 2002.

10. The limited success of Brazil's industrial development policies over the past two decades could be explained by both internal and external factors. Changes in the domestic industrial landscape had resulted in greater competition and liberalization, which had made product differentiation and innovation key factors in the sustainability of industrial development; new processes enabled the industrial sector to improve efficiency and reduce costs, while the development of new products and applications opened the door to new and more promising markets. Research and development, the development of knowledge-based sectors around commonly agreed objectives and continual attention to capacity-building and education were vital in that regard.

11. In March 2004, the Brazilian Government had adopted a National Policy for Industrial Development, Technological Innovation and Foreign Trade, which brought together key public and private actors and was to be implemented by the Brazilian Agency for Industrial Development, a private non-profit agency funded primarily by contributions from the industrial sector. The National Policy was structured into vertical programmes, which focused on four areas deemed strategic to the enhancement of Brazil's industrial development and its insertion into the world market—microelectronics, software, pharmaceuticals and industrial machinery and horizontal programmes, which addressed all industrial sectors in a cross-cutting manner.

12. A total of 57 initiatives were already being implemented under the new National Policy. A Law on Innovation, passed in December 2004, had provided the framework for the links between private companies, universities and research institutes that were needed in order to encourage research and development. The Brazilian National Economic and Social Development Bank had begun implementation of a programme for the modernization of industrial machinery in SMEs, to which funds totalling $900 million had been allocated. In the biotechnology sector, which was experiencing steady growth, a national forum for biotechnology competitiveness had been set up in September 2004. The establishment by the Brazilian Export Promotion Agency of eight distribution centres for Brazilian products abroad would help to insert Brazilian industrial goods—which were highly competitive in terms of price, quantity and reliability—into the international market. The distribution centres would provide space for storage, showrooms and offices for a period of 12 to 18 months, in order to consolidate the presence of a given product in the market. The National Policy also included several initiatives to promote training in fields such as microelectronics and nanotechnology.

13. It was widely acknowledged in Brazil that the country needed both a policy and appropriate institutional mechanisms that would promote the renewal of the country's industrial capacity, job creation and an environment favourable to the dissemination of new technologies, the opening of new markets and the expansion and diversification of international trade. Brazil was still, in many ways, a developing country: it ranked fifteenth among Latin American and Caribbean countries in terms of gross national product (GNP) per capita and seventy-second on the Human Development Index. Brazil had, however, attained a world-class level of development in specific industrial sectors and had put into place effective and innovative mechanisms to promote long-term industrial development, despite the considerable financial constraints that had characterized the country's recent history. He wished to emphasize to the Board that when certain key factors were in place—strong political will, appropriate mechanisms, dialogue and compromise among the primary actors, and long-term planning and boldness—industrial development could be achieved.

14. He emphasized the importance of scientific and technological innovation, capacity-building and the implementation of institutional, legal and financial arrangements as key factors in the promotion of sustainable and socially responsible industrial development. The efforts made by the Organization to

increase its presence in the field, to forge new links of cooperation and partnership with other international organizations, to create synergies with private actors within the framework of the United Nations Global Compact, and to focus on the social development dimension of its programmes and projects deserved the full support and recognition of the Board. Providing access to generic drugs, helping to bridge the digital divide and promoting sustainable uses of biodiversity were examples of how industrialization should and could improve the environment and livelihood of millions of people. UNIDO was on the right path, but must continue to refine and strengthen its core competencies, while contributing to sustainable industrial development and the achievement of international development goals.

15. **Mr. HIDALGO CASTELLANOS** (Mexico) welcomed the *Annual Report 2004* and the continuity it showed. The importance that Mexico attached to UNIDO could be seen in the fulfilment of its financial commitments and its membership of the governing bodies. If the scale of assessments proposed by the Director-General for the next biennium were adopted, Mexico would become the eighth largest contributor to UNIDO. Mexico aimed, through its membership of the Programme and Budget Committee and the Board, to make a constructive contribution to the debate on various aspects of global economic development, in particular the need to improve productivity and competitiveness with minimum impact on the environment in the least developed countries (LDCs), with a view to achieving poverty reduction, one of the Millennium Development Goals.

16. Mexico had been supportive of the Director-General's work over the years, but had also been critical of specific aspects of the dual role of UNIDO and had fought for greater attention to be paid to Latin America and the Caribbean, a region in which the Organization could do a great deal to address inequalities in development and cooperation. The aim of closer relations between UNIDO and Mexico was to increase the Organization's presence and activities in the country and the region as a whole. Progress had been made in that direction through the regional office in Mexico City and a number of visits to Mexico by the Director-General, during which high-level talks had taken place.

17. **Mr. VIDANAPATHIRANA** (Observer for Sri Lanka) said that, as a developing country that attached great importance to sustainable industrial development, Sri Lanka fully supported the work of UNIDO, which had succeeded in balancing the industrial development needs of developing countries with the realities and opportunities offered by a globalized international environment. His country endorsed the four principal areas of focus of the Organization, reflected in the new programme approval committees—poverty reduction, trade capacity-building, human security in post-crisis situations and energy and environment.

18. Sri Lanka, which had relied on export crops in the past, was now seeking to develop a competitive manufacturing sector. The agricultural sector remained important, but manufacturing exports should also be strengthened. His Government also recognized the significant contribution of SMEs to employment creation and income generation.

19. Phase I of the country's integrated programme had been successfully completed. The Government would decide on the projects to be carried out in phase II and seek UNIDO's assistance in fund-raising and project delivery. UNIDO had helped to promote environmentally sustainable industry in a number of sectors, such as apparel and leather, and had provided support for SMEs and assistance in testing, standardization and metrology. UNIDO had also helped to conduct sectoral studies for the Master Plan for Industrialization and Investment Promotion in Sri Lanka.

20. With regard to the current changes in the structure of UNIDO representation at country level, he said that the UNIDO Focal Point within the Ministry of Industry in Sri Lanka had been working effectively since its establishment in 1999. He therefore considered that any changes should be made only after proper evaluation and consultation with all stakeholders.

21. The tsunami of 26 December 2004 had cost thousands of lives and caused widespread destruction of SMEs and the industrial infrastructure in Sri Lanka. His Government hoped for the assistance of UNIDO and donors in the rehabilitation and restructuring of the SME sector in the affected areas.

22. He noted with satisfaction the increase in technical cooperation delivery under the leadership of Mr. Magariños and the record level of voluntary contributions from Governments and other development partners. He also welcomed the fact that UNIDO was continuing to strengthen its collaboration with other agencies, including UNDP, the United Nations Conference on Trade and Development (UNCTAD) and WTO.

23. **Mr. ERTAY** (Turkey) said that UNIDO had reviewed its programme activities in recent years and focused on producing practical and useful results in its areas of comparative advantage; as a result, technical cooperation delivery and funding from donor countries had increased. The strategic long-term vision which the Board was to discuss at the current session would lead to even greater efficiency.

24. Cooperation between Turkey and UNIDO had increased in recent years. Since its establishment in

February 2000, the UNIDO Centre for Regional Cooperation in Ankara had organized workshops on technology foresight, agro-industry and promotion of SMEs. Turkey was a donor to and an active participant in the technology foresight seminars. The next seminar would be held in the final quarter of 2005, and representatives from countries in the Balkans, the Middle East and Asia were expected to attend. The Centre had also organized a workshop on food-processing technologies in 2004, in which many countries from the region had participated.

25. Since 2002, the Centre had been implementing a project to promote SMEs in Azerbaijan, Kyrgyzstan and Uzbekistan, at a cost of $224,000, paid by Turkey. As part of the project, a successful seminar had been held in Baku, Azerbaijan, training courses had been held in Kyrgyzstan and Uzbekistan and a feasibility study had been conducted for the establishment of an industrial park in Azerbaijan. The Centre would remain in operation for at least the next five years.

26. UNIDO and the Turkish International Cooperation Agency were soon to conclude a memorandum of understanding which would enable them to share resources and experience, particularly for work with economies in transition.

27. The UNIDO Investment and Technology Promotion Office in Istanbul, Turkey, had been opened in February 2005. He hoped that it would lead to higher private-sector contributions to projects in and around Turkey.

28. Another joint project organized by UNIDO and Turkey was the International Centre for Hydrogen Energy Technologies in Istanbul, which was mentioned several times in the *Annual Report 2004*. Turkey had established a trust fund to finance the project, with cash and in-kind contributions amounting to $40 million over five years. The sum of $11.5 million had already been provided. Key project staff had been recruited, facilities had been set up and several pilot projects were already under way. He called upon other Member States to contribute to the project, which would give developing countries a clean and renewable source of energy and increase the visibility and technical capacity of UNIDO.

29. **Mr. CHO Chang-beom** (Republic of Korea) said that, if the process of revitalization begun by the current Director-General was to be successfully continued, his successor must not only possess the necessary professional competence and integrity, but also understand the reform process thoroughly and be determined to carry it through.

30. In recent years, development issues had been extended to cover poverty, gender equality, HIV/AIDS, education and the environment, and were now recognized as a decisive factor in the preservation of international peace and security. UNIDO must take all those issues into account when developing its strategic long-term vision, which should lay down the future direction of development policy while maintaining flexibility.

31. The United Nations-wide approach to development, as laid down in the Secretary-General's report entitled "In larger freedom: towards development, security and human rights for all" (A/59/2005), emphasized poverty eradication and environmental sustainability. UNIDO must maintain its status as an independent development organization within the global partnership for development. To that end, he called upon the Secretariat to take all possible measures to encourage former major donors, especially Australia, Canada and the United States of America, to rejoin the Organization.

32. He was pleased to note that the collection rate of assessed contributions for 2004 stood at over 90 per cent and that voluntary contributions for the same year had increased, enabling UNIDO to increase technical cooperation delivery to $98.8 million. He hoped that that trend would be sustained.

33. Integrated programmes and country service frameworks had made a substantial contribution to poverty reduction and trade capacity-building in developing countries. He called upon the Secretariat to improve the performance and assessment of the integrated programmes and to mobilize as much funding as possible in order to ensure that the programmes were implemented on time.

34. One element of the integrated programme for the Democratic People's Republic of Korea—the construction of a goat's-milk dairy with an independent power supply—should be finished soon, although the project had been hampered by a lack of interest on the part of the donor community. Such projects not only provided immediate humanitarian assistance, but also promoted medium-term and long-term industrial development. He therefore called upon donors to respond to the immediate needs of States and not to be guided exclusively by political considerations. In view of recent improvements in the political and security situation on the Korean peninsula, he hoped that UNIDO would be able to play a more proactive role in poverty alleviation and industrial capacity-building in the region.

35. He welcomed the Cooperation Agreement concluded between UNIDO and UNDP and the launch of a number of joint pilot projects. He hoped that the cooperation between the two agencies would increase once the two-year pilot period had been successfully completed.

36. He likewise welcomed UNIDO's introduction of results-based management and budgeting, and called upon the Secretariat to set up a detailed and systematic operating mechanism, including an objective and quantifiable performance indicator. It was pleasing to note that more women were now being recruited, but more people from underrepresented Member States should also be recruited, particularly at middle and senior levels. He hoped that recruitment would proceed in a transparent and forward-looking manner, taking advantage of the smooth transition to the new leadership.

37. His Government had contributed financially to a number of integrated programmes in Asian and African countries in 2004. It also contributed to the Investment and Technology Promotion Office in Seoul to enable it to promote direct foreign investment and technology diffusion. He encouraged UNIDO to explore further possibilities for supporting the work of that office.

38. As a country that had risen out of poverty to a position of economic strength, the Republic of Korea could help developing countries by sharing its experience and expertise. His Government was considering increasing the amount it devoted to official development assistance, and he hoped that its involvement in UNIDO's programmes would increase in the near future.

39. **Mr. KANDIE** (Kenya) welcomed the ongoing consultations on the development of UNIDO's long-term strategic vision, which should provide benchmarks for the long-term activities of the Organization as well as responding to the immediate concerns of Member States. He was sure that the strategic vision would contribute to the implementation of the Millennium Development Goals and his own country's target of industrialization by 2020.

40. His Government's strategy for economic recovery covered employment, health and education and included an investment plan, in which the strengthening of entrepreneurial skills and the development of micro, small and medium-sized enterprises were priorities. UNIDO would be a key partner in the development of industrial activities, providing advice on quality, product design, markets and consumer preferences.

41. His country supported UNIDO's efforts to work more closely with other agencies, especially UNDP, which had also provided financial support for Kenya's integrated programme. Kenya was one of the countries involved in the pilot phase of activities under UNIDO's Memorandum of Understanding with WTO, aimed at enhancing trade capacity in developing countries. Kenya acknowledged that, as well as building up its production capacity, it must also address such issues as market access and sanitary and phytosanitary standards and certification.

42. Kenya would draw up a master plan, in consultation with all interested parties, for its objective of achieving industrialization by 2020. UNIDO and other partners would play a key role in the industrialization plans.

43. **Mr. ZEWERI** (Observer for Afghanistan) said that he wished to thank the Director-General for the special attention he had given to Afghanistan. Following a visit by the Director-General immediately after the fall of the Taliban regime, UNIDO had launched two large-scale projects in his country, dealing with industrial standards and agricultural productivity respectively. An industrial capacity-building programme was in preparation. A UNIDO Desk had been opened in Kabul in March 2005 under the UNIDO/UNDP Cooperation Agreement.

44. With regard to the *Annual Report 2004*, he observed that, while the increase in technical cooperation delivery to $98.8 million was commendable, only $8.2 million approximately 8.3 per cent – had been delivered to LDCs. He likewise appreciated UNIDO's efforts in the field of South-South cooperation, but felt that the programme of economic and technical cooperation among developing countries (ECDC/TCDC) could create greater synergies if new mechanisms were developed for the effective implementation of the programme. The Director-General should consider reinstating the LDC and TCDC units within the Secretariat and promote innovative mechanisms and special programmes to support the least developed countries.

45. With regard to the budget for 2006-2007, he would like to see the outstanding issues relating to the budget resolved through further consultations among Member States and with the Secretariat. A realistic budget must be agreed in order to avoid adverse consequences for UNIDO's performance and delivery of technical assistance and to enable it to play its part in the enhancement of security at the Vienna International Centre.

46. With reference to the implementation of the Cooperation Agreement between UNIDO and UNDP, he welcomed the opening of the UNIDO Desks within UNDP field offices, but felt that the status of the Desks after the expiration of the Cooperation Agreement and the future UNIDO field structure required more careful consideration. His delegation encouraged the Secretariat to hold more frequent brainstorming sessions and briefings with the Heads of UNIDO Operations in order to exchange information about possible improvements to the offices and any remedial measures which might be necessary.

47. Regarding UNIDO's strategic long-term vision, he shared the concern that the document submitted by the Secretariat (IDB.30/23) paid too much attention to activities in response to the past and current problems faced by developing countries rather than to the new challenges that could be expected over the next 10-15 years. It might be advisable for the strategic long-term vision statement to contain a more thorough analysis of the expected future requirements of developing countries and define the future role of UNIDO in responding to the new challenges.

48. **Mr. DAVIES** (South Africa) said that his country noted with approval UNIDO's strong performance in 2004 and its strong focus on Africa. However, the *Annual Report 2004* did not bring out adequately the relatively undeveloped nature of UNIDO's programmes and activities in southern Africa.

49. With regard to the Africa Productive Capacity Initiative (APCI), which had been adopted by the African Union in July 2004 as the sustainable industrial development component of the New Partnership for Africa's Development (NEPAD), his delegation stressed the importance of in-depth consultations with regional groups, notably the Southern African Development Community (SADC), with a view to ensuring their support and inputs as key stakeholders prior to the design and adoption of sectoral subregional programmes under APCI. Such consultations could be held within the framework of regional SADC ministerial meetings, which took place twice yearly. With the full participation and understanding of members, the programmes could be used to guide UNIDO's ongoing and pipeline programmes, activities and projects in subregional sectoral priority areas. The development of integrated programmes, including individual country programmes in southern Africa, was of great concern. Southern Africa was not at the same level as elsewhere in terms of programme development, and the introduction of such significant initiatives as APCI, while welcome, had to take cognizance of other national development priorities as well as UNIDO's level of engagement in the region.

50. **Mr. OMOTADE** (Nigeria) said that his delegation appreciated the Director-General's efforts in formulating and adopting a new framework for UNIDO decentralization and field representation, and commended the Cooperation Agreement signed with UNDP. Nigeria welcomed the fact that Africa remained one of the Organization's priority areas in terms of technical cooperation, and in that regard urged UNIDO to intensify its efforts with a view to enabling Africa to attain rapid industrial development as soon as possible, given that it was the least industrialized continent and thus in greatest need of assistance from UNIDO and the international community.

51. **Mr. PADILLA MENENDEZ** (Observer for Guatemala), referring to Guatemala's Integrated Programme, said that the National Metrology Centre of Guatemala (CENAME) was already in its final phase of construction, and was expected to be inaugurated during the second half of 2005. The Centre would make it possible to meet long-standing needs for assessment of the quality of industrial products, which was a key factor of competitiveness in the globalized world.

52. The Guatemalan authorities were greatly interested in initiating a second phase of the Integrated Programme, to which end talks had already been initiated with a view to setting up a "bridge programme" that would make it possible to continue activities already in progress, to extend the Programme to other areas of national priority and to create the possibility of offering services at the subregional level.

53. A regional seminar was scheduled for September 2005 that would cover those topics of greatest concern in terms of industrial development, namely the problems of trade facilitation and export promotion and matters relating to market access, with emphasis on the specific problem of access to the North American market, the importance of which had been underlined by the recent signature of the Free Trade Agreement between Central America and the United States of America.

54. **Ms. HIROSE** (Managing Director, Programme Coordination and Field Operations Division) said that due note would be taken of the constructive and encouraging comments made by Member States. UNIDO was firmly committed to intensifying its efforts to increase its effectiveness, efficiency and relevance to Member States. The Secretariat hoped to count on the continued support and cooperation of Member States to that end.

REPORT OF THE PROGRAMME AND BUDGET COMMITTEE (IDB.30/22)

(a) **INTERIM REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 2004-2005** (IDB.30/2 and Add.1, IDB.30/8, IDB.30/9)

(b) **FINANCIAL SITUATION OF UNIDO** (IDB.30/10, IDB.30/13; IDB.30/CRP.8)

(c) **SCALE OF ASSESSMENTS FOR APPORTIONMENT OF THE REGULAR BUDGET EXPENSES FOR THE BIENNIUM 2006-2007** (IDB.30/7)

(d) **WORKING CAPITAL FUND FOR THE BIENNIUM 2006-2007** (IDB.30/3)

(e) APPOINTMENT OF AN EXTERNAL AUDITOR (IDB.30/5 and Add.1-4)

(f) SECURITY ENHANCEMENTS AND PROPOSED NEW CONFERENCE FACILITIES (IDB.30/11; IDB.30/12 and Add.1 and 2)

(g) MOBILIZATION OF FINANCIAL RESOURCES (IDB.30/2)

(h) FINANCIAL REGULATIONS (IDB.30/4)

IMPLEMENTATION OF THE RECOMMENDATIONS OF THE EXTERNAL AUDITOR (IDB.30/8)

55. **Mr. SAMODRA SRIWIDJAJA** (Indonesia), speaking on behalf of the Group of 77 and China and referring to sub-item (f) of agenda item 4 ("Security enhancements and proposed new conference facilities"), said that the Group could accept the option of supplementary appropriations to finance the second phase of security enhancements, with UNIDO's share amounting to 1.1 million euros.

56. However, the two additional projects should be given careful examination by the Board. The Group was concerned at the fact that the replacement of windows with laminated shatter-resistant glass had already begun, along with the asbestos removal project, before the necessary funding had been secured. It believed that the basic costs for window replacement, amounting to 2.5 million euros, could be covered by available Buildings Management Services (BMS) funds as suggested in document IDB.30/12. The Group did not consider the installation of radio-frequency grounds passes to be a priority at the moment.

57. The Group took note of the fact that the funds required for security obligations with regard to window replacement had been reduced to the incremental costs of the shatter-resistant glass. Those incremental costs should be covered by supplementary appropriations, with a UNIDO share amounting to 0.24 million euros.

58. Any future measures planned by the Secretariat with respect to security enhancement should be proposed only after consultations with and approval by Member States.

59. Turning to item 7, he said that the Group noted with satisfaction that implementation of several of the External Auditor's recommendations was at varying stages of completion. The Group encouraged the Secretariat to intensify its efforts towards the full implementation of all remaining recommendations as soon as possible.

60. The Group emphasized the need for an objective analysis of the skills and resources required for the functions of the Office of the Comptroller General, and would like the results of the requested analysis to be shared with Member States as soon as possible.

61. **Mr. FABER** (Luxembourg), speaking on behalf of the European Union (EU) and of Bulgaria, Romania, Croatia, Turkey, Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Serbia and Montenegro, Norway and Ukraine, referring to the question of the appointment of an External Auditor, said that a balance had to be drawn between the need for regular rotation and the need for effective auditing. Since it took time for a new external auditor to acquire a sound understanding of an organization, it would be beneficial to UNIDO if external auditors were appointed for a period of two years, normally to be extended twice, unless there was evidence of unsatisfactory performance—and without the possibility of further extension after the six-year period. That would be both cost-effective and in line with the agreed principles of international auditing relating to the regular rotation of external auditors. On the basis of that policy, the EU was pleased to support the re-election of Mr. Shauket Fakie of the Republic of South Africa.

62. Turning to the proposed programme and budgets for the biennium 2006-2007, he expressed his appreciation to the Chairperson of the Programme and Budget Committee and the chairman of the consultations held during the Committee's twenty-first session for their efforts aimed at a consensus to be reached on the matter prior to the Board's thirtieth session. Unfortunately, a consensus had yet to be reached, and the EU offered its full cooperation and support in resolving the issue.

63. With regard to the financing of the second phase of the security enhancements, the EU wished to reiterate its position, reached following careful consideration of possible options for the financing of security enhancements, that the only way to ensure that all Member States contributed their respective share was to request UNIDO to prepare a supplementary budget estimate to be agreed on by the General Conference in December 2005. Financing through voluntary contributions and unencumbered balances did not reflect the principle of shared responsibility, nor did it constitute a secure way of funding. Finally, the EU questioned the inclusion of radio-frequency grounds passes in the budgetary estimates for the phase II security enhancements, given that they appeared neither in the relevant General Assembly resolutions nor in the budgetary estimates being prepared by other Vienna-based organizations.

64. **Mr. NAQVI** (Pakistan), speaking on behalf of the Asian Group and referring to item 4 (e) ("Appointment of an External Auditor"), said that the Group reiterated its support for the candidature of Mr. Guillermo N. Carague, Chairman of the Philippine Commission of

Audit, for the post of External Auditor, taking into account his qualifications and experience. During the tenth session of the General Conference in 2003, the Philippines had withdrawn its nomination for the post of External Auditor in the interests of consensus, paving the way for the reappointment of the incumbent External Auditor from South Africa for a second term. While other regional groups had had the opportunity to hold the post for more than one term, no Asian country had held it since the establishment of UNIDO as a specialized agency in 1985. The Asian Group wished to emphasize the principle of equitable geographical rotation, and encouraged favourable consideration of the Philippines candidature by Board members.

65. With regard to item 4 (f) ("Security enhancements and proposed new conference facilities"), the Group considered that the two additional projects should be carefully examined. The Group was concerned that the replacement of windows with laminated shatter-resistant glass had already begun, along with the asbestos removal project, before funding had been secured. In that context, the Group took note that the funds required for security obligations with regard to window replacement had been reduced to the incremental costs of the shatter-resistant glass, and that other window replacement costs could be covered by available BMS funds. The incremental costs of the special glass should be covered through supplementary appropriations, with a UNIDO share amounting to 0.24 million euros.

66. Concerning radio-frequency grounds passes, the Group was not fully convinced of the advisability of an access control system, and would like the matter to be further examined.

67. Regarding item 7 ("Implementation of the recommendations of the External Auditor"), the Group noted from the annex to document IDB.30/8 that many of the External Auditor's recommendations had been addressed to his satisfaction, and that the implementation of certain other recommendations was at varying stages of completion. The Group encouraged the Secretariat to intensify its efforts to implement the remaining recommendations fully as soon as possible, particularly those concerned with fraud-prevention strategy and contingency policy and with information and communication technology.

68. **Mr. RAMZY** (Egypt), speaking on behalf of the African Group, said that the Group had noted the Interim report of the External Auditor (IDB.30/8) and wished to express its satisfaction with the External Auditor's positive assessment of UNIDO's financial stability and the enhancement of its technical cooperation delivery and services. The Group encouraged the Secretariat to continue its efforts and cooperation with all relevant stakeholders and specialized agencies in mobilizing extrabudgetary funds for the Organization's technical cooperation activities, particularly the implementation of integrated programmes and the country service frameworks. The Group also urged all Member States and donors to increase their voluntary contributions to UNIDO and to consider contributing programmable funds.

69. As for the financial situation of UNIDO, the Group commended the Secretariat for its efforts to ensure better implementation of programmes. It took note of the marginal increase in the collection rate of 2005 assessed contributions in the first three months of the year, and hoped that that positive trend would provide impetus to improve service delivery. The Group was concerned that outstanding arrears of contributions amounted to 145.2 million euros, and noted with great concern that 48 Member States had lost their voting rights as of 31 March 2005. However, the Group was pleased to note that 38 Member States, including six of the least developed countries, had made full payments and that 42 Member States, including five of the least developed countries, had made partial payments. The Group called upon all Member States to pay their contributions in full and on time and reiterated its appeal to former members to fulfil their financial obligations to the Organization.

70. The Group noted that technical cooperation activities in 2004 amounted to $98.8 million, an increase of $17.2 million compared with 2002. That improvement was mainly attributable to the increase in trust fund and Montreal Protocol resources, and the Group encouraged the Organization to pursue the exploration of new funding sources to finance technical cooperation. Part of the improvement was due to the special account for the Regular Programme of Technical Cooperation (RPTC), and the special account mechanism should be continued.

71. The Group expressed its strong support for Mr. Shauket Fakie to serve a third and final term as External Auditor, and urged others to join in supporting him. A third term would provide continuity during the first period in office of the newly elected Director-General.

72. The Group was pleased to note the finding in the External Auditor's report that the Organization was well run, and that most of the earlier recommendations had already been implemented. It also welcomed the significant progress made by the Office of the Comptroller General in fostering the principles of good corporate governance, particularly in the results-based management system, fraud-prevention strategy, information and communication technology policies and procedures and evaluation activities, but felt that, as indicated in the report, there was still room for substantial improvement, notably in adopting a strategic approach to procurement, improving procurement and

contract strategies and improving the systems to ensure the availability of detailed management information on procurement activities, all of which steps would help the Secretariat to achieve an economic and efficient procurement system. The Group wished to stress the importance of the External Auditor's recommendations concerning the application of the Standards of Conduct for the International Civil Service and the recruitment and evaluation of consultants and experts.

73. **Mr. JHA** (India) noted the External Auditor's observation that the Organization was well run and advancing through a period of revitalization. The issue of the audits of building management services, procurement and the use of consultants, which had not been taken up by the Internal Oversight Group owing to the redeployment of resources, needed to be suitably addressed. Greater use should be made of computer assisted audit techniques. The Secretariat might also pursue the improvements the External Auditor had suggested in relation to performance management and appraisal in terms of identifying and negotiating goals, job descriptions and reporting cycles. Further improvements might also be made in procurement procedures and the recruitment and use of consultants and experts.

74. Timely and full payment of assessed contributions and early settlement of dues would go a long way towards enabling the Organization to achieve its goals more effectively. The Secretariat should continue to make efforts to collect all outstanding dues, including those from former Member States. India welcomed the payment plan arrangements that had been entered into or were being negotiated by Member States. India noted the higher levels of regular budget cash resources and of the operating reserve, as well as the lower operating costs incurred on account of deferred expenditure and cost savings, and was encouraged by the increasing and more even level of RPTC delivery following the establishment of the special account mechanism.

75. **Ms. HE Wangyang** (China) reiterated her country's support for the candidature of Mr. Guillermo N. Carague, Chairman of the Philippine Commission of Audit, for the post of External Auditor, noting the contribution made by the delegation of the Philippines to securing consensus on the matter at the tenth session of the General Conference and the fact that no Asian had held the post of External Auditor since UNIDO had become a specialized agency. She expressed the hope that all parties concerned would act in accordance with the principle of equitable geographical distribution and support Mr. Carague's candidature.

76. **Mr. EL MEKWAD** (Egypt), noting the positive observations contained in the interim report of the External Auditor (IDB.30/8) and welcoming the increase in UNIDO's technical cooperation programmes, said that his country would have liked the report to have dealt also with the Cooperation Agreement with UNDP and with post-crisis industrial reconstruction and rehabilitation. Expressing his delegation's full support for the way in which the External Auditor had performed his duties, he said it would be particularly important to maintain stability and continuity as the Organization entered a new phase under a new Director-General. It was for that reason that Egypt endorsed Mr. Fakie's candidature for a third and final term as External Auditor.

77. **Mr. DERY** (Philippines) expressed appreciation to those Member States that had paid their contributions in full and to those that had made partial payments, but said that it was of concern that 48 Member States still had suspended voting rights because of non-settlement of their financial dues and that a substantial amount was still due from former Member States. The Philippines called on all Member States concerned, including the former Members, to settle their financial obligations in full and on time. The Philippines was pleased to note that technical cooperation delivery had surpassed the levels of previous years, partly through implementation of the RPTC special account mechanism.

78. The Philippines wished to formally present the candidature of Mr. Guillermo Carague, Chairman of the Philippines Commission of Audit, for the post of External Auditor of UNIDO. It was the firm belief of the Philippines that a nominee of high international standing and with substantial and credible experience in the field of auditing international multilateral organizations should be appointed as the Organization's next External Auditor. He recalled that the Philippine decision to withdraw its candidature at the tenth session of the General Conference had paved the way for the re-election of the incumbent External Auditor, Mr. Shauket Fakie, Auditor-General of the Republic of South Africa. It was his country's strong conviction that such a critical post required objectivity, impartiality and professionalism. Mr. Carague was a nominee of the highest calibre: a recognized expert in international auditing and accounting, with an outstanding record of accomplishments, he currently chaired the United Nations Board of Auditors. He was a member of the Monetary Board of the Philippines Central Bank, and had been Secretary of Budget and Management in the Cabinet of President Corazon Aquino. Furthermore, in light of UNIDO's limited financial resources for external audit costs, the Philippines Commission of Audit was ready to modify its proposed audit fee, but without in any way compromising the quality of services Mr. Carague and his team intended to render. The Philippines delegation requested that Member States of the Board accord favourable consideration to Mr. Carague's candidature.

79. **Mr. HIDALGO CASTELLANOS** (Mexico), referring to the scale of assessments for the biennium

2006-2007, said that the Mexican delegation considered, as it had stated in the Programme and Budget Committee, that, although the practice had been for UNIDO to base its scale of assessments on the scale most recently employed by the United Nations, that did not mean that the scale used by the United Nations should be adopted automatically. A scale should be sought that would be a better and more just reflection of the economic situation of members. Mexico's position, as had been set forth in the General Assembly, was that greater importance should be attached to the ability of Member States to pay. However, Mexico had chosen not to block Committee consensus in the recommendation on the proposed scale to the Board.

80. As for security enhancements and proposed new conference facilities, Mexico shared the concern of the international community regarding enhancement of security in the installations and activities of international organizations, and supported the Secretary-General's appeal in that regard. With regard to the financing of phase II of security enhancements, the question was how the Organization should handle its financial obligations, since the draft decision proposed by the Secretariat would cause budgeting complications for various Member States. The Board should seek other alternatives allowing the Organization to fulfil its financial commitments without causing problems for States with their financial or parliamentary authorities. One option would be to include the cost of phase II in the regular budget for 2006-2007.

81. As for the programme and budgets for 2006-2007, Mexico noted a lack of balance as between regions. UNIDO should allocate resources for a programme for the Latin American and Caribbean region for the biennium 2006-2007, in line with General Conference resolution GC.10/Res.8. As for the 2006-2007 regular budget, Mexico had expressed its preference in the Programme and Budget Committee for a nominal zero growth budget. It agreed with the delegation of Japan that a maximum effort should be made to identify areas where the Organization could make greater savings without affecting technical cooperation programmes. Maximum efforts must be made to reduce the level of UNIDO's regular budget.

82. **Mr. BOWOLEKSONO** (Indonesia) expressed the hope that the External Auditor's opinion on the Organization's financial situation up to the end of 2004 would be received in the course of the year. Indonesia was pleased to note the conclusion that UNIDO was well run. With regard to the financial situation, Indonesia noted that the collection rate for 2004 was slightly less than for 2002; it was recommended that measures be taken to ensure that the rate was maintained in 2005. Indonesia expressed its full support for the candidature of Mr. Carague of the Philippines for the post of External Auditor of UNIDO. It also fully supported security enhancements at the Vienna International Centre (VIC) and expressed its appreciation to the Government of Austria for its efforts to enhance security both inside and outside the compound. As to the funding options, he recalled that the Board had decided at its last session that the costs for the initial phase should be approved through supplementary appropriations "as an exceptional case" (GC.11/3, Board decision IDB.29/Dec.4), and he reiterated his delegation's belief that Member States and international organizations should not be burdened with extra financial contributions again and again because of the worsening security threat. Moreover, the UNIDO Secretariat should not begin implementing projects with regard to security enhancement before the budget proposal was approved.

83. **Mr. OMOTADE** (Nigeria) said that his delegation noted the marginal increase in the collection rate for the first quarter of 2005, and hoped that the trend would improve service delivery. He also expressed appreciation for the increase in technical co-operation activities in 2004, further funding sources should be sought and UNIDO should reinforce its cooperation with all relevant international organizations, stakeholders and specialized agencies. He urged UNIDO to intensify its efforts to promote and advance the use of sustainable renewable energy sources in the developing countries, especially in rural and small communities, and to expand the establishment of sustainable industrial resources management and cleaner production projects. Trade capacity-building (Major Programme D) played an important role in assisting African industrial products to gain access to international markets, and in that connection Nigeria welcomed the conclusion of the first phase of the programme initiated in 2003 by UNIDO and the World Trade Organization and comprising four African countries; Nigeria looked forward to the rapid implementation of the second phase and the initiative's expansion to other countries. Nigeria also welcomed Major Programme E, which provided assistance to improving the entrepreneurial and technical skills of rural and women entrepreneurs, as well as stimulating the productive capacities of micro, small and medium enterprises, especially in the agro-industry sector. Nigeria noted with particular appreciation UNIDO's close cooperation with the New Economic Partnership for Africa's Development and the UNIDO-sponsored African Productive Capacity Initiative.

84. **Mr. MORIMOTO** (Japan), referring to the programme and budgets for 2006-2007, expressed appreciation for the participation of all stakeholders in the discussions begun at the twenty-first session of the Programme and Budget Committee and continued in informal meetings leading up to the current Board session. He noted that UNIDO was successfully

implementing its activities within the amount of the approved 2004-2005 assessed contributions, namely 142 million euros. Considering that fact, Japan wished once again to emphasize its strong belief that the Organization could achieve the same high level of performance under a zero real growth budget for 2006-2007. It believed that the total amount of the new budget – 149.6 million euros – would allow UNIDO to continue efficient and effective programme delivery. Japan requested that the Secretariat rewrite the budget proposal for 2006-2007 on the basis of such agreements as might be reached during the Board session. The budget proposal for 2008-2009 should be based on the final approved budget for 2006-2007.

85. Considering the matter of fair geographical distribution of the posts of Director-General and External Auditor, and given that the next Director-General was to be an African, Japan supported the candidature of Mr. Guillermo N. Carague of the Philippines for the post of External Auditor.

86. Security enhancement was a common task and shared responsibility of Member States, and Japan in principle supported the relevant measures in the present budget proposal, except for the radio-frequency grounds pass measures, which had not yet been approved either by the General Assembly or by any other VIC-based organization. Japan opposed inclusion of that item in the budget and requested the reduction of the supplementary estimate accordingly.

87. Finally, Japan applauded the Secretariat for complying with the External Auditor's recommendations and enhancing UNIDO's internal oversight function. It felt strongly that further success in that area was both possible and desirable while maintaining the modest size of the internal auditing unit and limiting it to essential staff in order to reflect the relatively small size of the Organization.

88. **Mr. DAVIES** (South Africa) noted with approval the External Auditor's comments regarding the management of UNIDO. However, the External Auditor had drawn attention to areas where improvements were needed, such as the use of consultants and experts. Where appropriate procedures were not followed, there could be a negative indirect impact on UNIDO's transfer of skills to Member States. He thanked delegations that had commented on the quality of the External Auditor's report, and noted that there seemed to be general agreement that his office continued to perform excellent work. South Africa believed that it would complete its task to everyone's satisfaction with a third two-year term. His delegation supported the European Union's pragmatic and sensible proposal for a standard series of three two-year terms; that was becoming the norm for the United Nations system.

The meeting rose at 6.20 p.m.